

WebMemo



Published by The Heritage Foundation

No. 2586
August 13, 2009

India's Future in the Balance

Michelle Kaffenberger and Derek Scissors, Ph.D.

A possibly critical event within India has gone largely unnoticed elsewhere: The Indian federal legislature has approved a bill mandating free public education for all citizens. Whether the bill is properly or improperly implemented could play a notable role in determining whether India becomes a global economic leader, and a global economic partner for the U.S.

The education bill is an attempt to reconcile two fundamental forces: (1) India's painfully low literacy rate and shortage of skilled labor, and 2) a pronounced demographic shift toward a larger, younger population.

If the tide of new workers can be adequately educated, their job training can progress far more easily, and their employment will be much more beneficial for the Indian economy. In this case, the demographic trends will contribute powerfully to economic expansion. The alternative, however, is decades of massive underemployment and slow growth due to low labor productivity.¹

Requiring Education. The heart of the education bill is free and compulsory education for all children aged six through 14, which requires students to complete eighth grade.² To this end, the bill decrees that, within the next three years, a school must be built in every neighborhood lacking one. The federal government has lofty ambitions, but it is state governments that must fulfill them—building the schools, providing the free education, and tracking every child.

The bill provisions include:

- Compulsory education ages 6–14;
- Universal free education ages 6–14;
- Schools must be built in all communities within three years;
- No discrimination against the disadvantaged;
- Private schools must reserve 25 percent of billets for the disadvantaged; and
- The federal government will standardize national curriculum.

An unremarked section of the bill mandates a "Management Committee" at each school, where three-fourths of the members are parents or guardians. The committees will be responsible for monitoring and preparing plans to serve as the basis for action by state governments. This is intended to make schools more accountable to parents. The bill also establishes a certificate of recognition that must be obtained from the respective state government, without which a school will face fines and closure.

The Demographic Challenge. The stakes for the education bill are high. One quarter of India's 1.1 billion people are under age 15, over half under age 25, and over two-thirds under age 35. Almost 90 million people—the combined labor forces of Britain, France, and Italy—are projected to join the workforce by 2013. By 2028, the population is pro-

This paper, in its entirety, can be found at:
www.heritage.org/Research/AsiaandthePacific/wm2586.cfm

Produced by the Asian Studies Center

Published by The Heritage Foundation
214 Massachusetts Avenue, NE
Washington, DC 20002-4999
(202) 546-4400 • heritage.org

Nothing written here is to be construed as necessarily reflecting the views of The Heritage Foundation or as an attempt to aid or hinder the passage of any bill before Congress.

jected to rise by 370 million. India will simultaneously have the youngest age profile among large economies and the largest national workforce.³ That development could make it an exceptionally valuable partner for the U.S. and others.

This workforce explosion is typically presented as marvelously good news, guaranteeing rapid growth for a generation. More workers mean more production, consumption, and GDP. Demographic expansion does not, however, automatically bring net benefits. Productive employment for so many is a daunting prospect. One assessment is that a successful year requires 7 percent real growth and no fewer than 15 million new positions.⁴ If job creation is impeded or workers are ill-prepared, tens of millions will be left under- or unemployed.

Agriculture, where three-fifths of the population is employed, illustrates the potential and peril. There are already 60 million redundant agricultural workers; finding real jobs just for them in industry or services would boost GDP 25 percent in five years.⁵ Higher farm productivity is certainly a worthy goal, as it raises income and reduces poverty. But it would also cut the number of workers needed, adding tens of millions more to those seeking jobs in cities.

An Inadequate System. A huge, young, well-trained Indian workforce would play a powerful role in the global economy. Such a workforce does

India in 2025, Two Scenarios

	Average Annual GDP Growth Beginning 2010	Global GDP Rank	Per Capita GDP	Annual Inward Direct Investment	Trade Volume With U.S.
Demographic Boon	8.1%	4th	\$6100	\$145 billion	\$420 billion
Demographic Burden	3.8%	9th	\$2400	\$70 billion	\$140 billion

Sources: Heritage Foundation projections.

Table 1 • WMM 2586  heritage.org

not yet exist, though. Much attention has been focused on highly skilled labor in technology. High-tech companies, however, will not be able to absorb the flood of new workers soon to enter the labor force. India must therefore enhance basic skills by providing broad primary education.

Problems in the system extend beyond the quantity of resources devoted. The budget for the Department of School Education and Literacy, which oversees primary and secondary education and adult literacy programs, was almost quintupled from fiscal year 2003–04 to 2007–08. Yet the national literacy rate is only 64 percent. (China's is 90 percent.)⁶ Clearly, funding by itself is not a solution.

Even if more schools are built, at present 25 percent of teachers do not show up for work, and only 50 percent actually teach when at school. Only one of every 3,000 administrators has ever fired a teacher for absenteeism.⁷ It is hardly a surprise that half of 10-year-olds in village schools are unable to read at a

1. For policy recommendations on U.S.–India economic relations, including education, see Derek Scissors and Michelle Kaffenberger, “U.S.–India Relations: Ensuring Indian Prosperity in the Coming Demographic Boom,” Heritage Foundation *Backgrounder* No. 2274, May 15, 2009, at <http://www.heritage.org/Research/AsiaandthePacific/bg2274.cfm>.
2. “The Right of Children to Free and Compulsory Education Bill, 2008,” Bill No. LXV of 2008, at <http://www.indlaw.com/display.aspx?6936E249-75EC-40A8-87A0-A96EBFAD00E0> (August 10, 2009).
3. David Karl, “Three Events Tell a Tale of Two Indias,” Center for Strategic and International Studies December 23, 2008, at <http://www.csis.org/media/csis/pubs/pac0867.pdf> (April 22, 2009); Central Intelligence Agency, *The World Factbook*, at <https://www.cia.gov/library/publications/the-world-factbook> (April 22, 2009); Population Reference Bureau, “The World’s 15 ‘Oldest’ Countries and the U.S.,” 2006, at http://www.prb.org/presentations/gb-aging_all.ppt (April 22, 2009).
4. MSN News, “Upbeat Mukesh Ambani Says 21st Century Will Be India’s,” March 8, 2009, at <http://news.in.msn.com/business/article.aspx?cp-documentid=1917408> (April 22, 2009); Bibek Debroy, “India’s Vicious Downward Cycle,” *Far Eastern Economic Review*, March 6, 2009, at <http://www.feer.com/essays/2009/march/indias-vicious-downward-cycle> (April 22, 2009).
5. “India Faces Huge Manpower Crunch: Study,” *Business Standard*, December 29, 2008, at <http://www.business-standard.com/india/news/india-faces-huge-manpower-crunch-study/22/31/344626> (April 22, 2009).

six-year-old level. India ranked 102 out of 129 in UNESCO's 2009 Education for All Development Index, which grades on the quality, spread, and gender balance of primary education and adult literacy.⁸

Significant change is needed, and soon. By 2013, 58 million more secondary school dropouts could join the labor force, with 60 percent of the new working-age population concentrated in five of the poorer states.⁹ Their access to education may be severely limited.

The Bill as Round 1. The education bill is a positive first step in meeting India's demographic challenge. The potential benefits and costs are gigantic, however, and far more needs to be done.

Decentralizing authority from federal to state governments is a step in the right direction. Teachers must be made accountable and the new bill addresses teacher performance, in principle. New training standards, to which the bill obligates the federal government, should improve quality in new hires. The local management committees will give parents a greater voice. To the extent possible, authority over teachers should be more fully decentralized. As an illustration of possible gains, Bihar state cut teacher absences in half by making teachers locally accountable.¹⁰

States should decentralize other tasks to communities, such as tracking students to ensure they remain in school. This is a daunting task given the size of state populations. Unless it is done well,

though, the number of secondary school dropouts could swell further, turning much of the labor force into a burden.

Private Sector Must Contribute. Federal and state governments clearly need a great deal of help. Evidence suggests the very poor—at risk of being unskilled, underemployed, and failing to contribute fully to economic development—are well served by extremely low-cost private education. Schools with very little funding, provided almost entirely by poor parents unsatisfied with government options, have fared well in comparison to much better financed public schools.¹¹

Yet opening a private institution requires years of battling the bureaucracy. The provision in the new bill requiring every school to be certified creates yet another layer of regulation. In addition to implementing the new public commitment to education, federal and state governments should recognize that, in light of demographic change, a major private contribution is necessary for economic development and India's emergence as a prosperous, democratic, and global power. And the development of India—an increasingly important American friend—is good for the U.S.

—Michelle Kaffenberger is former Production Coordinator and Administrative Assistant in the Kathryn and Shelby Cullom Davis Institute for International Studies, and Derek Scissors, Ph.D., is Research Fellow in Asia Economic Policy in the Asian Studies Center, at The Heritage Foundation.

6. Government of India, Ministry of Finance, *Expenditure Budget, 2003-2004*, Vol. 2, pp. 113–114, at <http://indiabudget.nic.in/ub2003-04/eb/sbe56.pdf> (April 22, 2009), *Expenditure Budget, 2007-2008*, Vol. 2, pp. 132–134, at <http://indiabudget.nic.in/ub2007-08/eb/sbe56.pdf> (April 22, 2009); U.S. Department of State, “Background Notes: India,” January 2009, at <http://www.state.gov/r/pa/ei/bgn/3454.htm> (April 22, 2009), “Background Notes: China,” January 2009, at <http://www.state.gov/r/pa/ei/bgn/18902.htm> (April 22, 2009); *The Economist*, “Creaking, Groaning,” December 11, 2008, at http://www.economist.com/specialreports/displaystory.cfm?story_id=12749787 (April 22, 2009).
7. The World Bank, “Teachers Skipping Work,” at <http://go.worldbank.org/T4N6N4RZX0> (April 22, 2009); Jay Mathews, “The Hidden Flaws in China and India Schools,” *The Washington Post*, January 23, 2009, at http://www.washingtonpost.com/wp-dyn/content/article/2009/01/23/AR2009012300781_pf.html (April 22, 2009).
8. Bibhudatta Pradhan, “India Backs Education for All to Counter Demographic Nightmare,” *Bloomberg*, August 4, 2009, at <http://www.bloomberg.com/apps/news?pid=20601091&sid=a8eOEHF8m7Y#> (August 10, 2009).
9. *The Economist*, “India Faces Huge Manpower Crunch,” “India's Economy,” February 1, 2007, at https://www.economist.com/finance/displaystory.cfm?story_id=8625681 (April 22, 2009).
10. *The Economist*, “Creaking, Groaning.”
11. James Tooley, *The Beautiful Tree: A Personal Journey into How the World's Poorest People Are Educating Themselves* (Washington, D.C.: Cato Institute, 2009).